

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EB-08 TRSE-00 OMB-01 CIAE-00 DODE-00  
PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01  
SP-02 SS-15 USIA-06 /065 W  
-----161414Z 063672 /41  
R 160535Z FEB 77  
FM AMEMBASSY JIDDA  
TO SECSTATE WASHDC 7304  
INFO USDOC WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 JIDDA 1320

E.O. 11652: GDS  
TAGS: BENC, SA  
SUBJECT: SAG BACKLASHES INFLATED BIDS

REF: (A) JIDDA 1251 KB) JIDDA 1252

### 1. SUMMARY.

SAUDI MINISTRIES HAVE RECENTLY STARTED REJECTING BIDS BECAUSE OF PATENTLY INFLATED PRICES SUBMITTED BY BIDDERS. THERE ARE SOME BASIC REASONS FOR ALL-OUT PRICING ON TENDERS, PARTLY BECAUSE OF SAG POLICIES, LOCAL AGENCY PRACTICES AND INFLATION PROBLEMS. MANY BIDDING FIRMS HAVE REVIEWED PAST TENDERS AND BIDS GIVEN OUT IN 1976, (MANY OF WHICH WERE INFLATED AND SOME OBTAINED), AND BELIEVING THAT SAUDIS HAVE MORE MONEY THAN THEY CAN SPEND, HAVE EXCEEDED ALL NORMS IN PRICE FIXING. THE CURRENT SAG POSITION IS A REACTION TO THE ALLEGED ABUSES AND COULD START A CHAIN REACTION. THIS MESSAGE IS GIVEN TO ANALYSE AND GIVE THE FLAVOR OF THE SITUATION AND THE CURRENT PROBLEM. END SUMMARY.

2. DURING 1976, MANY SMALL AND LARGE PROJECTS WERE TENDERED AND BID AT STAGGERING PRICES. A THREE-MONTH STUDY ON SWIMMING POOLS IN RIYADH WAS CONTRACTED OUT FOR \$2,000,000. IN DESALINATION PROJECTS THERE WERE  
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PRICE SPREADS OF SR ONE BILLION IN SOME CASES. CONSTRUCTION PROJECTS WERE QUOTED AT MIND-BOGGLING COSTS. PROJECTS UNDERWAY, SUCH S THE NEW JIDDA AIRPORT, ORIGINALLY TO COST \$800 MILLION, WERE ESCALATED TO COSTS OF \$4 BILLION. PORT OF JIDDA HELICOPTER OFF-LOADING WAS CONTRACTED FOR AT \$38.00 PER TON, AND OTHER CONTRACTS WERE MADE AT UNBELIEVABLE COSTS. THE PHILIPS COMPANY,

WHICH HAD A NEGOTIATED CONTRACT FOR THE TELECOMMUNICATIONS BACKBONE PROJECT RECENTLY GAVE A QUOTED COST OF SR 21 BILLION. ADVISED BY THE SAG THAT THIS WAS TOO HIGH, THE PRICE REPORTEDLY WAS REDUCED TO SR 13 BILLION, WHICH REVEALED, IF ANYTHING, THAT THE FIRST PRICE WAS INFLATED BEYOND REASON. ALL INDICATIONS ARE THAT PHILIPS MAY BE COMPLETELY REBUFFED DESPITE THE PATRONAGE OF CROWN PRINCE FAHD'S SON, MOHAMED.

3. LITTLE NOTICED IN THIS PERIOD OF EUPHORIA FOR BIDDERS, THE DAG MINISTRIES BEGAN INTENSIFYING THEIR USE OF ENGINEERING AND OTHER CONSULTANTS TO EVALUATE PROJECTS, PARTICULARLY COSTS. THE EMBASSY FREQUENTLY WAS REQUESTED BY A NUMBER OF MINISTRIES FOR ASSISTANCE IN RECRUITING CONSULTANTS. IN MANY CASES OTHER CONSULTANTS WERE CALLED IN TO EVALUATE THE REPORTS OF THE FIRST CONSULTANTS.

4. THE UPSHOT OF THESE ACTIONS, BUTTRESSED BY THE WARNINGS OF CONSERVATIVE SAUDI OFFICIALS, HAS APPARENTLY RESULTED IN CLOSER SCRUTINY OF BIDS. UNFAVORABLE NEWSPAPER PUBLICITY ABOUT FANTASTIC PRICES COULD ALSO HAVE BEEN A FACTOR ACCORDING TO SOME SAUDI BUSINESSMEN. IN ANY CASE, ON FEBRUARY 7, THE MINISTRY OF INDUSTRY AND ELECTRICITY CANCELLED BIDS FOR ELECTRIFICATION PROJECTS IN FOUR REGIONS. IT IS REPORTED THAT THE PRICES BID EQUALLED THE MINISTRY'S TOTAL BUDGET FOR 1977. THIS ACTION HAS NOW SNOWBALLED AND ON FEBRUARY 13, THE MINISTRY OF MUNICIPALITIES AND RURAL AFFAIRS CANCELLED

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A NUMBER OF TENDERS FOR SEWAGE AND FLOOD CONTROL IN TAIF, AL-KHOBAR AND DAMMAM. NAMES OF THE BIDDERS ARE NOT YET KNOWN. IN ADDITION, THE COUNCIL OF MINISTERS IN A MEETING ON FEBRUARY 12, DECIDED TO FORM A COMMITTEE TO STUDY RELATIONSHIPS BETWEEN FOREIGN CONTRACTORS AND LOCAL BIDDERS. THE COMMITTEE WILL BE COMPOSED OF THE MINISTERS OF MUNICIPAL AND RURAL AFFAIRS, PETROLEUM, FINANCE AND ECONOMY, PLANNING, INDUSTRY AND ELECTRICITY, AND COMMERCE.

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FM AMEMBASSY JIDDA  
TO SECSTATE WASHDC 7305  
INFO USDOC WASHDC

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5. THE STUDY OF RELATIONSHIPS OF FOREIGN CONTRACTORS AND LOCAL AGENTS MAY PROVE TO BE MOST REVEALING. THE EMBASSY HAS LEARNED THAT IN THE PAST YEAR MANY FOREIGN CONTRACTORS PRESENTED PRICES WHICH WERE THEN REVISED UPWARDS BY LOCAL PARTNERS BY TWO AND THREE HUNDRED PERCENT. THE LOCAL PARTNERS SKIMMED OFF THE INCREASES FOR THEMSELVES. IN EFFECT, THE SAUDIS WERE BRIBING THEMSELVES THROUGH AND FROM THE GOVERNMENT TROUGH. FOREIGN FIRMS NO LONGER PAID OR HAD TO PAY ANYTHING UNDER THE COUNTER TO GET FAT CONTRACTS. THE INFLATED CONTRACTS THEMSELVES PAIS THIS. HOW MUCH WENT TO SAG OFFICIALS IS UNKNOWN.

6. THE SAG MINISTRIES AND SAG POLICY TOWARD BIDDING ON TENDERS HAS AT LEAST PARTIALLY FUELED THESE HIGH PRICES. COST-PLUS, AND ESCALATION CLAUSES IN BIDS HAVE BEEN REJECTED OUT OF HAND. CONTRACTING FIRMS, ESPECIALLY FOREIGN COMPANIES, FACED WITH THE NEED TO PROVIDE A LUMP SUM PRICE, HAVE MADE WORST CASE ESTIMATES TO COVER INFLATION WHICH, EVEN SAMA ADMITS WAS RUNNING AT 36 TO 38 PERCENT IN 1976. HOUSING COSTS HAVE SHOT UP ABOUT 600 PERCENT IN THREE YEARS. UNSKILLED LABORERS WHO GOT SR12 PERDAY IN EARLY 1975 ARE NOW GETTING SR80-100 PER DAY. SKILLED LABOR COSTS HAS GONE UP PROPORTIONATELY. SKILLED U.S. CONSTRUCTION WORKERS ARE NOW GETTING UP TO \$2500 A MONTH  
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PLUS HOUSING, TRAVEL AND OTHER BENEFITS. FOREIGN COMPANIES HAVE TAKEN THESE FACTORS INTO CONSIDERATION AND HAVE HEDGED BY DOUBLING PRICES ON BIDS. ADD TO THIS THE DOUBLING OF PRICES ON BIDS BY LOCAL AGENTS AND THE WONDER ABOUT HIGH BID PRICES FADES. U.S.CONTRACTORS STATE THAT PERFORMING A PROJECT IN SAUDI ARABIA CAN COST UP TO 800 PERCENT MORE THAN THE SAME PROJECT IN THE U.S.

7. COMMENT:

THERE IS NO DOUBT THAT SAG MINISTRIES REALIZE THEY  
MUST PAY WELL TO INDUCE FOREIGN CONTRACTORS TO TAKE ON  
LARGE PROJEVTS. CORRUPTION, THE GOLD RUSH FEVER AND  
THE PLETHORA OF UNREASONABLE BID PRICES NOW HAVE  
APPEARED TO REACH A POINT WHERE EVEN THE MOST GENEROUS  
AND MOST DESIROUS GOVERNMENT TENEREERS RECOIL AT THE  
PRICE DEMANDS. NOW A RETRENCHMENT HAS SET IN  
AT THE MINISTRIES, AND IT WILL NOT SURPRISE US TO SEE  
THESE TENDER AND BID REJECTIONS REPEATED. THE ABUSES  
WERE BECOMING WELL KNOWN AND ADVERSELY REFLECTING ON THE  
CAPABILITY OF THE GOVERNMENT. MANY ABLE AND HONEST  
TECHNOCRATS IN THE MID-ECHELONS OF THE GOVERNMENT WERE  
BECOMING CYNICAL AND DISENCHANTED WITH THEIR GOVERNMENT  
--A DEVELOPMENT ABOUT WHICH THE ALL PERVASIVE HOUSE OF  
SAUD WOULD NOT LONG REMAIN IGNORANT AND CANNOT REMAIN  
INDIFFERENT. HENCE THIS BACKLASH AND THE CONSEQUENT  
ATTEMPT TO RIGHT THE SITUATION.  
PORTER

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## Message Attributes

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